HOUSING MARKET OUTLOOK

Regina CMA

Canada Mortgage and Housing Corporation

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New Home Market

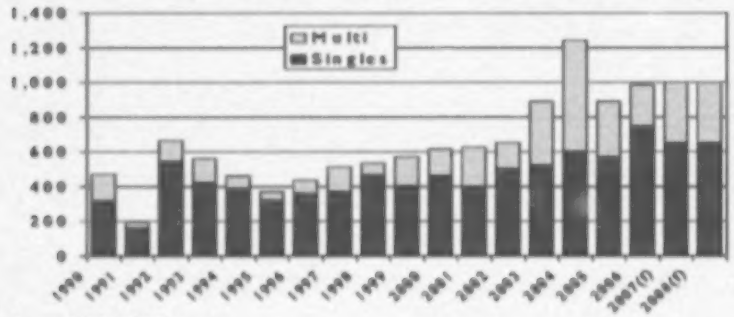
Employment and wage gains drive single-detached housing starts

CMHC is forecasting that Regina single-detached housing starts will maintain a brisk rate in 2007 with 650 starts and maintain that pace in 2008. Though lower than the 749 starts seen in 2006, the forecast is well over the ten year average for single-detached housing production in the capital. Employment and wage gains will support housing demand. Reduced out-migration and increasing in-migration will further support demand in 2007 and on into 2008. (See Figure 1)

Sources in the building industry have indicated that the market is experiencing some land shortages, though we expect this situation to be corrected later in 2007. Accordingly, this should have little impact on our forecast. Rising prices of new homes, due in part to escalating labour costs, may cause some homebuyers to either postpone home ownership or shift

Figure 1

Single and Multiple Housing Starts Regina CMA



Source: CMHC, CMHC Forecast

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their attention to the less expensive resale market.

With starts in Regina coming off a 19-year high in 2006, single-detached housing construction is proceeding at a furious pace. At the end of the first quarter, there were 516 single-detached units under construction, 37 per cent higher than the previous year. This is also the highest level of construction activity for this housing type since July 1987. There are less than 20 units completed and unoccupied and year-to-date absorptions are down 14 per cent compared to the end of the first quarter in 2006. This suggests that, although builders have buyers for their units, they are hard-pressed to complete homes for buyer occupancy. This, we are informed, is largely due to the shortage of skilled trade persons necessary to expedite construction. Labour force data supports this information.

At the present absorption trend of approximately 50 houses monthly, supply is sufficient to last 10 months, up one month from the average duration of supply in March 2006.

Average price of new singles to reach $279,000 in 2007 and $310,000 in 2008

Our forecast calls a 12.8 per cent rise in average price in 2007 followed by an 11.1 per cent increase in 2007. These increases will bring the average price to $279,000 in 2007 and $310,000 in 2008. Regina home buyers will see the impact of rising land and labour costs reflected in the price of a new home. We expect the rate of increase in the average price to moderate in 2008 as home buyers turn to less expensive land outside the city.

The shift to higher priced properties is continuing in Regina. For example, year-to-date figures in the first quarter indicate absorptions of new housing priced between $250,000 and $299,999 have increased by 24 per cent in 2007 compared to 2006.

Multi-family housing starts on the rise in 2007 and 2008

Multiple starts will rise in Regina to 350 units in each of 2007 and 2008, up from the four-year low of 237 in 2006. As the proportion of seniors in the population grows, demand from this group will encourage new multi-family condominium projects to come on stream.

In the first quarter, multiple starts have gathered momentum, with all types of multi-family starts up to 113 units starts compared to 10 starts in the first quarter of 2006. While this represents an impressive gain, however, it is merely a reflection of the volatility in the multi-family market.

Row housing units formed the bulk of first quarter starts with 74 units started in the first quarter compared to eight units by the end of March 2006. There were 35 apartment starts compared to only two in all of 2006. There have been four semi-detached unit starts so far in 2007.

Multiple supply down 16 per cent in first quarter

The end of the first quarter witnessed a 16 per cent decline in the total supply of multi-family units. The supply of apartments fell by just over 48 per cent while the supply of row units increased 16 per cent to 217 units compared to 187 units recorded at the end of the first quarter in 2006. Semi-detached units at various stages of construction or completed and unoccupied were down almost 32 per cent year-over-year.

Most of the multi-family units recorded as being under construction at the end of the quarter were row units. At 205 units, the number of rows under construction was up 25 per cent compared to corresponding levels at the end of March 2006. The volume of apartment units under construction has now dropped 49 per cent year-over-year to 85 units. The bulk of these apartments are for condominium tenure.

Multiple absorptions were up more than 42 per cent in the first quarter. Row absorptions have led the way this year with 36 row units absorbed thus far compared to 25 units absorbed in 2006 by the end of the first quarter. Apartment condominium absorptions were up to nine units compared to six units absorbed by the end of March 2006.

Row housing condominiums are seeing average prices of $143,600 in the first quarter, more than $110,000 less than the average single-detached unit. Almost all absorptions are in the $120,000 to $160,000 price range. Also in the first quarter of 2007, apartment condominiums have seen too little absorption to define any particular price range. Last year, the most active price range for apartment condominiums was $160,000 to $180,000 and the average price was approximately $175,000.

Resale Market

Record-breaking sales in 2007 and 2008 but limited choice available to buyers

CMHC is forecasting two record-breaking years for existing housing

sales in the capital with 3,300 sales in both 2007 and 2008. The same factors influencing the new housing market will support demand for existing housing, including employment growth leading to higher in-migration and increases in average household income. Additionally, rising rents will encourage first-time buyers to consider homeownership as an alternative. Another factor contributing to demand for existing housing will be rapidly escalating prices in the new housing market relative to the resale market.

Some of the negative factors influencing existing housing demand would be a scarcity of listings and the rising prices which result from the limited number of listings. The most recent data from the Association of Regina Realtors® indicates that in March 2007, the total inventory of active listings was down sharply compared to the same month in 2006. The total inventory of active residential listings stood at 644 units, down 23 per cent from one year ago. Single-detached active listings were down to 381 listings in March 2007 compared to 616 in March 2006.

New listings activity has been exactly on par with last year and single-detached homes sold in an average of 30 days in the January to March period, down from 38 days at that time in 2006. As sales are trending up and the flow of new listings is constant, the supply of active listings is falling. Consequently, the sales-to-listings ratio is on the rise, a situation which should be temporary. As more units are ready for occupancy on the new housing side, buyers of new homes will list their existing home, thus providing additional new listings for the existing housing market.

Average price grows almost eight per cent in 2007 and 10 per cent in 2008

The average resale price will increase 7.7 per cent in 2007 followed by an increase of 10.2 per cent in 2008 bringing average sales price to $156,500 in that year. Driving the increase in prices in Regina has been a shift in sales to the higher price ranges. According to the Association of Regina Realtors®, to the end of March 2007 the percentage of sales in the $240,000 and over price category has increased from six per cent to almost ten per cent. We anticipate rising earnings and continued low financing costs will encourage this movement to the higher price ranges in the forecast period. (See Figure 2)

Regina's average selling price is the lowest reported for any Census Metropolitan Area on the Prairies. This is largely because of the relatively high proportion of sales occurring in the very lowest price ranges. In the first quarter of 2007, the Association reported that more than 35 per cent of sales were for residential property priced less than $100,000. This is a unique characteristic of the Regina market and serves to explain the very low average price compared to other Prairie centres.

Cost of home ownership climbs in 2007 and 2008

CMHC has calculated the principal and interest payments on a mortgage loan financing the purchase of a home selling at the average resale price. The mortgage would bear interest at the forecasted five year term rates for 2007 and 2008.

Our analysis determined that the monthly principal and interest would be about $865 in 2007, representing a 7.3 per cent increase from 2006. In 2008, corresponding payments will rise 12.9 per cent to approximately $977 monthly.

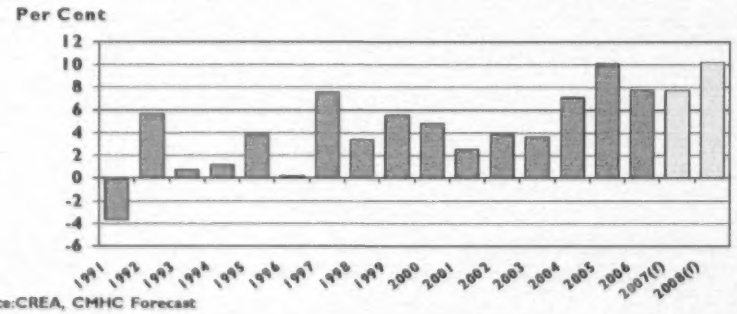
Rental Market

Average vacancy rate trending down in 2007 and 2008

Regina will see a steady decline in apartment vacancies with a rate of three per cent in the October 2007 survey and 2.5 per cent in the 2008 survey results. Positive influences on rental demand include rising prices in the resale and new housing markets causing some rental households to postpone their decision to move

Figure 2

Change in MLS® Sale Price Regina



Source:CREA, CMHC Forecast

toward homeownership. Employment gains will also lead to in-migration and growth in the number of renter households.

Vacancy rates have been rising since 2002. There are indications that some of the more affordable row and apartment condominium properties that continue to be built in the capital have been purchased by small investors, thus adding to the supply of rental housing. This production has now slowed allowing the average vacancy rate to decline.

Property owners will respond to the lower average vacancy rates and higher incomes by increasing rents, especially in those areas of the city where demand and income permits. We expect the average rent for two bedroom suites to increase to $636 monthly in 2007 and $653 monthly in 2008.

Economic Outlook

Employment on the rise in 2007 and 2008

After seeing modest employment gains of 1,000 additional employed in 2006, Regina will see further increases of 1,500 new jobs in 2007, raising total average employment to 111,100. A more modest rate of hiring in 2008 will lift total average employment to 112,000. (See Figure 3)

In the first quarter of 2007, it appears Regina is experiencing hefty job gains with average employment up 6,000 positions from the previous year. However, this pace is not expected to be maintained throughout the year. In 2006, job creation did not accelerate until the summer months, thus the current year-over-year comparison is against a weaker period. Moreover, average employment has been flat since last October and a surge similar to the summer of 2006 is unlikely.

The greatest proportion of gains thus far arose in the service sector with retail trade and education providing the momentum. The construction sector ended the quarter with an average of 6,700 employed, up 800 jobs from that seen in 2006 at this time. The unemployment rate in construction ended March at 6.1 per cent, down from the 10.8 per cent in March 2006. There has been a 5.7 per cent decline in average weekly earnings within the construction sector so far in 2007.

At the time of writing this report, the latest data to the end of February indicates the value of city building permits was up 12.3 per cent compared to last year at this time. Major construction projects are underway at the RCMP training depot, head office and terminal for the Saskatchewan Transportation Company and the University of Regina among others. Further projects are proposed for a new provincial laboratory and further expansion of the IPSCO steel plant. Such activity should contribute to positive, albeit slight, migration over the forecast period.

Mortgage rates will remain low

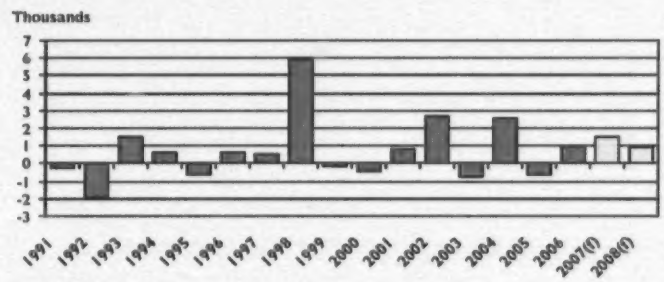
A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008.

Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months while the long-term mortgage rates will rise slightly in line with bond rates.

One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively over the rest of this year and in 2008.

Figure 3

Change in Total Employment Regina CMA



Source: Statistics Canada, CMHC Forecast

Forecast Summary Regina CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	2,785	2,730	2,953	3,300	11.8	3,300	0.0
MLS® New Listings	3,898	4,066	4,197	4,200	0.1	4,300	2.4
MLS® Average Price ($)	111,869	123,600	131,851	142,000	7.7	156,500	10.2
New Home Market							
Starts:							
Single-Detached	605	572	749	650	-13.2	650	0.0
Multiples	637	316	237	350	47.7	350	0.0
Starts - Total	1,242	888	986	1,000	1.4	1,000	0.0
Average Price ($):							
Single-Detached	192,949	218,612	247,392	279,000	12.8	310,000	11.1
Median Price ($):							
Single-Detached	185,976	213,057	242,499		-		-
New Housing Price Index (% chg.)	7.0	6.4	8.6	10.0	-	13.0	-
Rental Market							
October Vacancy Rate (%)	2.7	3.2	3.3	3.0	-	2.5	-
Two-bedroom Average Rent (October) ($)	602	607	619	636	2.7	653	2.7
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	-	6.29	-
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	-	6.80	-
Annual Employment Level	109,200	108,600	109,600	111,100	1.4	112,000	0.8
Employment Growth (%)	2.4	-0.5	0.9	1.4	-	0.8	-
Unemployment rate (%)	5.0	4.8	4.9	4.3	-	4.1	-
Net Migration	95	-490	-456	100	-	100	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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